93-416

Supreme Court, U.S.
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No.

IN THE

Supreme Court of the United States

OCTOBER TERM, 1993

BANFF, LTD.,

Petitioner,

—

vs.

COLBERTS, INC., and TAMARA IMPORTS,
a division of COLBERTS, INC., and
TAMARA IMPORTS, INC.,

Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

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ISSUES PRESENTED FOR REVIEW

1. Did Congress, in enacting the Lanham Trademark Act, overrule this Court's allocation of the burden of proof in trademark-infringement cases in *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203 (1942), which held that the burden of proving the cause of profits under an infringing trademark is borne by the guilty infringer, not the innocent trademark-owner?

2. Is the owner of a federally-registered trademark, who seeks to recover the illicit profits of a trademark-infringer, *always* required to prove the infringer's willfulness, including the infringer's actual knowledge of the registered mark?

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PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Petitioner hereby submits its petition for a writ of certiorari to the United States Court of Appeals for the Second Circuit.

INTRODUCTION

This petition, involving the infringement of a federally-registered trademark, raises 2 issues which divide the Circuits. The first concerns the burden of proof of illegal-profits causation; the second, whether proof of willfulness is *always* required to recover the infringer's illegal profits.

First, in the instant case, the Second Circuit held that Congress overruled this Court's allocation of the burden of proof in trademark-infringement cases, when Congress enacted the Lanham Trademark Act. This is a departure from the holdings of every other Circuit on point and an *express* rejection of this Court's precedent.

In *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203 (1942), this Court dictated a critical burden of proof for infringement of federally-registered trademarks: The burden of proving the cause of profits under an infringing trademark rests on the guilty infringer, not the innocent trademark owner. *Id.*, at 206–07. If the infringer is unable to prove a cause other than the infringement itself, those profits are presumed to be the product of the infringement and thus the property of the registered trademark owner. Every Circuit has followed *Mishawaka*, except the Second Circuit here, which held that Congress overruled *Mishawaka* and shifted this burden to the innocent trademark-owner (A.1 at 5n.1: "*Mishawaka* . . . is no longer good law"). The Second Circuit's holding is an aberration: It is the only Circuit to reject this Court's holding in *Mishawaka*. *See* list of Circuits at pp. 13–14, *infra*.

Second, the Second Circuit differed with most Circuits on the need for proof of willfulness to recover an infringer's illegal profits. The Second Circuit held that the owner of a federally-registered trademark *always* must prove the infringer's willfulness, including the infringer's actual knowledge of the registered mark, to recover the infringer's illegal profits. This is a departure from the law in other Circuits which do not require proof of willfulness. *See* list of Circuits at pp. 14–16, *infra*.

It also is a departure from the express terms of the Lanham Trademark Act. The Lanham Act provides that federal registration already gives constructive notice of the registered mark (Lanham Act § 22) and that the trademark-owner's use of the statutory notice "®" is a valid substitute for the infringer's actual knowledge of the registered mark in monetary actions (Lanham Act § 29).

This Court should grant certiorari to address the Second Circuit's 2-fold departure from the law in other Circuits protecting federally-registered trademarks, to address the Second Circuit's express rejection of this Court's allocation of the burden of proof in *Mishawaka*, and its departure from the notice features of Lanham Act §§ 22 & 29.[1]

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[1]Petitioner Banff, Ltd., has no parent companies nor subsidiaries.

The names of all parties are set forth in the caption. There has been no change in the parties.

OPINIONS AND ORDERS BELOW

The opinion of the Second Circuit is set forth in the appendix at A.1–7. It is reported. *Banff, Ltd. v. Colberts, Inc.*, 996 F.2d 33 (2d Cir. 1993).

The judgment of the Second Circuit is set forth in the appendix at A.8.

The District Court's judgment of dismissal is set forth in the appendix at A.10.

The District Court's order denying petitioner's motion to amend the judgment of dismissal is in the appendix at A.12.

The District Court's opinion and order denying respondents' cross-motion for attorneys fees is in the appendix at A.13. It is not reported.

JURISDICTION OF THIS COURT

Petitioner seeks review of a final judgment of a United States Court of Appeals. This Court has jurisdiction pursuant to 28 U.S.C. § 1254(1).

This petition is timely. The Second Circuit entered its judgment and opinion on June 14, 1993 (A.1, A.8; *Banff, Ltd. v. Colberts, Inc.*, 996 F.2d 33 (2d Cir., June 14, 1993)). Petitioner timely files this petition within 90 days. Sup.Ct.R. 13.1.

1. Petitioner raised below, and the Second Circuit decided, both issues presented here

In the Courts below, petitioner properly raised both issues presented here (996 F.2d at 34–35; A.1 at 3–5).

In addition, the Second Circuit addressed both issues on the merits, constituting a separate and independent basis for their review here. *Cohen v. Cowles Media Co.*, 111 S.Ct. 2513, 2517 (1991) (resolution of issue on merits by lower court confirms Supreme Court jurisdiction to resolve issue on certiorari).[2]

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[2]On a *separate* issue, the Second Circuit held that petitioner did not properly raise an issue involving the duty to search the trademark registry (996 F.2d at 34; A.1 at 3–4). Petitioner does not pursue that separate issue here, but confines its petition to the issues which the Second Circuit decided on the merits.

STATUTORY PROVISIONS

Lanham Act § 22 (15 U.S.C. § 1072) provides:

> Registration of a mark on the principal register provided by this Act or under the Act of March 3, 1881, or the Act of February 20, 1905, shall be constructive notice of the registrant's claim of ownership thereof.

Lanham Act § 29 (15 U.S.C. § 1111) provides:

> Notwithstanding the provisions of section 22 hereof [quoted above], a registrant of a mark registered in the Patent and Trademark Office, may give notice that his mark is registered by displaying with the mark . . . the letter R enclosed within a circle, thus ® ; and in any suit for infringement under this Act by such a registrant failing to give such notice of registration, no profits and no damages shall be recovered unless the defendant had actual notice of the registration.

Lanham Act § 35(a) (15 U.S.C. § 1117(a)) provides:

> When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office . . . shall have been established in any civil action arising under this Act, the plaintiff shall be entitled, subject to the provisions of sections 29 and 32 and subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by plaintiff, and (3) the costs of the action. . . . In assessing profits, the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed. . . .

STATEMENT OF THE CASE

1. Basis of federal jurisdiction in the District Court

This is an action to recover the illicit profits gained from infringement of a federally-registered trademark. The District Court has subject matter jurisdiction under 15 U.S.C. § 1121(a) and 28 U.S.C § 1338(a).

2. Background and procedural history

Petitioner (plaintiff below), who owns the federally-registered trademark "Vanessa" for women's clothing, seeks to recover the stipulated $137,189 profits which respondents earned under their infringing (and identical) trademark "Vanessa" which they used also on women's clothing. The parties stipulated to the amount of respondents' profits under the infringing mark ($137,189) (A.20–21) and stipulated that petitioner used the statutory notice "®" in compliance with Lanham Act § 29 (15 U.S.C. § 1111) (A.18 & 19).

Petitioner presented 3 legal theories to the District Court: (1) that respondents were unjustly enriched by their infringement-profits and failed to discharge their burden under *Mishawaka*, *supra*, to prove a cause for their profits other than the infringement itself, (2) that respondents infringed petitioner's federally-registered mark, and that petitioner did not need to prove willful knowledge of the registration because petitioner used the statutory notice "®" in compliance with Lanham Act § 29, and (3) alternatively, that respondents were willful in any event. The District Court tried the first 2 claims to the Bench, and the 3d claim to a jury, in a combined Bench/jury trial (996 F.2d at 34; A.1 at 3).

One week prior to trial, the Second Circuit in another case ruled that proof of willfulness *always* is required to recover a trademark-infringer's profits under an infringing mark. *George Basch Co. v. Blue Coral, Inc.*, 968 F.2d 1532, 1540 (2d Cir.

1992), *cert. denied*, 113 S.Ct. 510 (1992) ("[W]illful deceptiveness is necessary in order to warrant an accounting for profits").

At trial here, the District Court followed the Second Circuit's week-old precedent in *George Basch*. After the jury found no willfulness on the 3d claim, the District Court dismissed both Bench claims (1st & 2d claims) because of the Second Circuit's week-old holding in *George Basch* that willfulness always was required to recover an infringer's illegal profits. The District Court entered a judgment of dismissal on July 20, 1992 (A.10).

Petitioner timely moved to amend the judgment, repeating its arguments at trial: (1) that respondents-infringers had not discharged their burden under *Mishawaka* to prove a cause for their illicit profits other than infringement of petitioner's registered mark, and (2) that proof of willful knowledge of the mark was not necessary because petitioner used the statutory notice "®" in compliance with Lanham Act § 29. The District Court denied petitioner's motion without opinion (A.12).

On appeal the Second Circuit affirmed. The Second Circuit held that *Mishawaka*'s allocation of the burden of proof no longer was good law because Congress allegedly had overruled *Mishawaka* when enacting the Lanham Trademark Act (996 F.2d at 35n.1 [A.1 at 5n.1]: "*Mishawaka* . . . is no longer good law"). The Second Circuit's ruling is a departure from the law in *every* other Circuit which has addressed *Mishawaka*: All have found *Mishawaka* to be viable and consistent with the Lanham Act. *See* list of Circuits at pp. 13–14, *infra*. Also, the Second Circuit, again differing with other Circuits, held that proof of willfulness *always* is required to recover an infringer's illicit profits, relying on its own precedent in *George Basch*, *supra* (996 F.2d at 35; A.1 at 5) ("[W]illful deceptive conduct is a necessary basis, a prerequisite for an award of profits"). Most Circuits hold otherwise. *See* list of Circuits at pp. 14–16, *infra*.

Petitioner timely seeks certiorari to review the Second Circuit's 2-fold departure from the decisions in other Circuits on pivotal issues protecting federally-registered trademarks, and to review the Second Circuit's express rejection of this Court's allocation of the burden of proof in *Mishawaka*.

REASONS FOR ALLOWANCE OF THE WRIT

The Second Circuit (1) expressly rejected this Court's allocation of the burden of proof in *Mishawaka* for infringement of federally-registered trademarks, (2) departed from the holdings of every other Circuit to address *Mishawaka*, as the other Circuits consistently have followed *Mishawaka*, and (3) departed from the holdings of several other Circuits in requiring that trademark-owners *always* prove an infringer's willfulness, including the infringer's knowledge of the registered mark, to recover the infringement-profits.

1. The Second Circuit, contrary to every other Circuit on point, held that Congress overruled this Court's decision in *Mishawaka*

In *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*, *supra*, 316 U.S. at 206–07 (1942), this Court held that the infringer of a registered trademark bore the burden of showing that its profits under the infringing mark did not result from its infringement; the innocent trademark-owner did not bear the burden to prove the opposite. This Court reasoned that the guilty infringer should bear the difficulties of proving the cause of the profits under its infringing mark:

> The burden is the infringer's to prove that his infringement had no cash value in sales made by him. If he does not do so, the profits on sales of goods bearing the infringing mark properly belong to the owner of the mark. . . . In the absence of [the infringer's] proving the contrary, it promotes honesty and comports with experience to assume that the wrongdoer who makes profits from the sales of goods bearing a mark belonging to another was enabled to do so because he was drawing upon the good will generated by that mark.

316 U.S. at 206–07. This Court made clear that this special

allocation of the burden of proof on infringers was a necessary protection of registered marks—securing "protect[ions] against an unwarranted use of the registered mark". 316 U.S. at 205.

In the present case, the Second Circuit expressly rejected *Mishawaka*. The Second Circuit reversed the burdens and required the innocent owner of the registered mark (not the infringer) to prove the cause of the infringer's profits. The Second Circuit reasoned that Congress supposedly had overruled *Mishawaka* in enacting the Lanham Trademark Act:

> Banff's [petitioner's] reliance on *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203 (1942), for the proposition that the burden of proof rests on the defendant to disprove unjust enrichment in the absence of a finding of willful infringement, is misplaced. As the District Court correctly noted, *Mishawaka* was decided prior to the enactment of the Lanham Act. To the extent that *Mishawaka* is inconsistent with § 35 of the Lanham Act, it is no longer good law.

Banff, Ltd. v. Colberts, Inc., *supra*, 996 F.2d at 35n.1 (2d Cir. 1993) (A.1 at 5n.1).

The Second Circuit's reliance on § 35 of the Lanham Act is misplaced. The Second Circuit confuses 2 different types of burdens: Lanham Act § 35 addresses only the burden of proving the *amount* of infringement-profits, whereas *Mishawaka* addressed the burden of proving the *cause* of the infringement-profits. There is no inconsistency between § 35 and *Mishawaka*, nor any legislative overruling.

Lanham Act § 35(a) makes this clear. Section 35(a) addresses only the *amount* of infringement-profits: It imposes on the trademark-owner the burden of proving the *amount* of the infringer's sales, and upon the infringer the burden of proving the *amount* of its costs and deductions:

> In assessing profits, the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed.

Lanham Act § 35(a), 15 U.S.C. § 1117(a). Lanham Act § 35(a) says nothing about proving the *cause* of the infringement-profits, which was the burden addressed in *Mishawaka*, *supra*. There is no inconsistency between *Mishawaka*'s allocation of the burden of proving the *cause* of infringement-profits (on infringer) and § 35(a)'s allocation of the burden of proving the *amount* of infringement-profits (registrant must prove sales; infringer must prove costs/deductions).

The Second Circuit confused these 2 burdens. It treated as one the separate burdens of proving the cause and amount of infringement-profits, and from that confusion, held that Lanham Act § 35(a) (*amount* of infringement-profits) supposedly overruled *Mishawaka* (*cause* of infringement-profits). There is no basis for the Second Circuit's express rejection of this Court's decision in *Mishawaka*.

Nor is there any basis for it in the legislative history. There is not one iota of legislative history indicating that Congress intended to overrule *Mishawaka*. Nor does the Second Circuit point to any. The Second Circuit points only to the text of § 35(a) which addresses the burden of proving the *amount* of infringement-profits, not their *cause*. 996 F.2d at 35n.1 (A.1 at 5n.1).

Nor did the Second Circuit address the considerations underlying *Mishawaka*. *Mishawaka* allocated the burden of proof to reflect fair dealing between parties, to protect federally-registered marks, 316 U.S. at 205 ("protect[ion] against unwarranted use of registered mark"), and to "promote[] honesty and comport[] with experience". *Id.*, at 207. The Second Circuit did not address these considerations of fairness and honesty, nor the protection of registered marks, which underlay *Mishawaka*.

Nor did the Second Circuit heed this Court's warning against giving windfall profits to trademark-infringers. In *Mishawaka* this Court recognized the possibility of a windfall in awarding infringement-profits to trademark-owners, but saw a greater danger in allowing the infringer a windfall in keeping them. This Court carefully adjusted the evidentiary burdens to prevent the greater danger (retention of windfall profits by infringers), while allowing flexibility where an infringer could prove a cause for its profits other than the infringement itself. *Mishawaka*'s burden of proof *on an infringer* was an essential element in regulating the potential windfall:

> There may well be a windfall to the trademark owner where it is impossible to isolate the profits which are attributable to the use of the infringing mark. But to hold otherwise would give the windfall to the wrongdoer. In the absence of [the infringer's] proving the contrary . . . [the Court must] assume that the wrongdoer [who makes profits under an infringing mark] was enabled to do so because he was drawing upon the good will generated by that mark.

Mishawaka, 316 U.S. at 207.

The Second Circuit now turns this doctrine on its head. By rejecting *Mishawaka*, 996 F.2d at 35n.1 ("*Mishawaka* . . . is no longer good law"), the Second Circuit now favors the infringer in its retention of windfall profits. The Second Circuit now imposes the burden on the trademark-owner, *id.*, where *Mishawaka* dictated the opposite in requiring proof by the infringer. 316 U.S. at 207 (burden of proof of profits-causation on infringer).

The Second Circuit's express rejection of *Mishawaka*, and its holding that Congress overruled it, are misguided, unsupported, and warrant review on certiorari.

2. The Second Circuit stands alone among the Circuits in rejecting *Mishawaka*

The Second Circuit's rejection of *Mishawaka* also is contrary to the law in every Circuit to consider *Mishawaka*. Every other Circuit which has considered *Mishawaka* has followed it as good law even after enactment of the Lanham Trademark Act. The following list shows this:

Circuits following *Mishawaka*

Third Circuit: *Williamson-Dickie Co. v. Davis Mfg. Co.*, 251 F.2d 924, 927 (3d Cir. 1958) (citing *Mishawaka*: "The infringement having been proved, and the competitive sales of defendants' goods bearing the infringing marks having been shown, the burden is then upon defendants to demonstrate, if they can, that profits were not derived from the infringing use").

Fifth Circuit: *Texas Pig Stands, Inc. v. Hard Rock Cafe Intern., Inc.*, 966 F.2d 956, 957 (5th Cir. 1992) (citing *Mishawaka*: "If it can be shown that . . . purchasers bought goods bearing the infringing mark . . . for any reason other than a response to the diffused appeal of the plaintiff's symbol, *the burden of showing this is upon the poacher*"; emp. added).

Sixth Circuit: *Wynn Oil Co. v. American Way Serv. Corp.*, 943 F.2d 595, 606 (6th Cir. 1991) (quoting *Mishawaka*: "The burden is the infringer's to prove that his infringement had no cash value in sales made by him.").

Seventh Circuit: *Otis Clapp & Son, Inc. v. Filmore Vitamin Co.*, 754 F.2d 738, 744 (7th Cir. 1985) (citing *Mishawaka*: "The defendant [infringer] may show that his infringement was not profitable.").

Ninth Circuit: *Smith v. Chanel, Inc.*, 402 F.2d 562, 566–67n.15 (9th Cir. 1968) (quoting *Mishawaka*: "[T]he infringer had the burden of proving that its sales were made 'for any

reason other than a response to the [infringing mark]' ".).

Tenth Circuit: *Blue Bell Co. v. Frontier Refining Co.*, 213 F.2d 354, 363 (10th Cir. 1954) (citing *Mishawaka*: "[T]he burden is upon Blue Bell companies [infringers] of showing that the profits realized by them were not attributable to the infringement.").

Circuit rejecting *Mishawaka*

Second Circuit: *Banff, Ltd. v. Colberts, Inc.*, *supra*, 996 F.2d at 35n.1 (2d Cir. 1993) ("*Mishawaka* . . . is no longer good law.") (A.1 at 5n.1).

3. There is wide divergence among the Circuits over the need for willfulness

The Second Circuit also diverged from most other Circuits in requiring proof of willfulness for recovery of an infringer's illegal profits. The Circuits are in wide disagreement: Most Circuits do not require proof of willfulness, while some do. The divergence among the Circuits is clear:

Circuits not requiring proof of willfulness

Third Circuit: *Williamson-Dickie Co. v. Davis Mfg. Co.*, *supra*, 251 F.2d at 927 (3d Cir. 1958) (award of infringement-profits affirmed "[i]n the absence of fraud on the part of defendants").

Seventh Circuit: *Roulo v. Russ Berrie & Co.*, 886 F.2d 931, 941 (7th Cir. 1989), *cert. denied*, 493 U.S. 1075 (1990) ("there is no express requirement that . . . the infringer willfully infringe the trade dress to justify an award of profits"—affirming a $4.3 million award with an express finding that "the infringement was not willful", 886 F.2d at 943).

Ninth Circuit: *Wolfe v. National Lead Co.*, 272 F.2d 867,

871 (9th Cir. 1959), *cert. denied*, 362 U.S. 950 (1960) (profits awarded "whether [the infringer] believed himself to be within the law or not"; profits awarded even where infringer relied upon favorable decision of District Court).

Tenth Circuit: *Blue Bell Co. v. Frontier Refining Co., supra*, 213 F.2d at 363 (10th Cir. 1954) (awarding profits without mention of willfulness "upon the equitable principle of unjust enrichment").

Eleventh Circuit: *Burger King Corp. v. Mason*, 855 F.2d 779, 781 (11th Cir. 1988) (expressly "reject[ing] good faith as a defense to an accounting of profits", awarding profits without proof of willfulness).

Circuits requiring proof of willfulness

Second Circuit: *Banff, Ltd. v. Colberts, Inc., supra*, 996 F.2d at 35 (2d Cir. 1993) ("[W]illful deceptive conduct is a necessary basis, a prerequisite for an award of profits") (A.1 at 5).

Sixth Circuit: *Frisch's Restaurants, Inc. v. Elby's Big Boy of Steubenville*, 849 F.2d 1012, 1015 (6th Cir. 1988) (willfulness required for award of infringement-profits).[3]

D.C. Circuit: *ALPO Petfoods, Inc. v. Ralstin Purina Co.*, 913 F.2d 958, 966 (D.C. Cir. 1990) (requiring proof of willfulness for an award of profits).

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[3]The Sixth Circuit appears to have retreated from this requirement of willfulness, by favorably quoting Seventh Circuit precedent to the contrary. *Wynn Oil Co. v. American Way Serv. Corp., supra*, 943 F.2d at 606–07 (6th Cir. 1991), quoting *Roulo v. Russ Berrie & Co., supra*, 886 F.2d at 941 (7th Cir. 1989) ("no express requirement that . . . the infringer willfully infringe", affirming an award of infringement-profits without willfulness).

Circuits awarding profits for willfulness, without stating whether willfulness is required

Fifth Circuit: *Maltina Corp. v. Cawy Bottling Co.*, 613 F.2d 582, 584–85 (5th Cir. 1980) (without stating whether willfulness is required, awarding profits for willful infringement).

Eighth Circuit: *Truck Equip. Service Co. v. Fruehauf Corp.*, 536 F.2d 1210 (8th Cir. 1976) (same).

a. The divergence among the Circuits encourages forum-shopping

Where the stakes are high, commencing suit in a "no willfulness" Circuit will be an essential stratagem. Once the Circuits make known their disposition on the need (or lack of need) for willfulness, infringement-plaintiffs may find it necessary to consult an interstate roadmap as part of their litigation planning.

That would now be the case here. When petitioner commenced this action within the Second Circuit (Sept. 1991), the Second Circuit had not yet held that willfulness always was required. It was not until July 1992 (1 week prior to trial here) that the Second Circuit so held. *George Basch*, *supra*, 968 F.2d at 1540 (2d Cir. 1992). If petitioner could have predicted the Second Circuit's ruling, petitioner likely would have sued respondents in Texas (Fifth Circuit) where respondents are headquartered, and where the law may not require proof of willfulness (p. 16, *supra*). Certainly today, petitioner, and other trademark-owners, would be advised to sue infringers in the 3d, 7th, 9th, 10th or 11th Circuits, and to avoid the 2d, 6th and D.C. Circuits (list at pp. 14–16, *supra*).

Yet the law should be uniform, especially on pivotal issues such as the need for willfulness to impose civil liability. The Lanham Trademark Act loses its force as a *uniform* means of assessing financial responsibility for trademark infringement where its assessment of liability depends on a tactical choice

of forum to gain a favorable ruling on scienter. *Cf. Trans World Airlines, Inc. v. Thurston*, 469 U.S. 111, 126–28 (1985) (reviewing and resolving inter-Circuit differences concerning willfulness in age discrimination).

CONCLUSION

This Court should grant certiorari to review (1) the Second Circuit's express and unsupported rejection of this Court's decision in *Mishawaka* which this Court designed to protect federally-registered trademarks, (2) the Second Circuit's divergence from every other Circuit on point in its express rejection of *Mishawaka*, and (3) the Second Circuit's divergence from numerous other Circuits in holding that willfulness *always* is required for an award of infringement-profits under the Lanham Trademark Act.

Dated: New York, N.Y.
Sept. 13, 1993

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APPENDIX

[Opinion of Second Circuit]
[reported at 996 F.2d 33 (2d Cir. 1993)]

[Filed June 14, 1993]

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

Nos. 1332, 1475 — August Term 1992
(Argued: April 12, 1993 Decided: June 14, 1993)
Docket Nos. 92-9298 and 92-9334

BANFF, LTD.,

Plaintiff Appellant-Cross-Appellee,

— v. —

COLBERTS, INC.; TAMARA IMPORTS, a Division of Colberts, Inc.; TAMARA IMPORTS, INC.,

Defendants-Appellees-Cross-Appellants.

Before:

VAN GRAAFEILAND, WINTER, *Circuit Judges*,
POLLACK, *Senior District Judge**.

* The Honorable Milton Pollack, Senior United States District Judge for the Southern District of New York, sitting by designation.

Appeal from a judgment entered on July 20, 1992, in the United States District Court for the Southern District of New York (Carter, *J.*) dismissing plaintiff-appellant-cross-appellee's federal trademark action; and cross-appeal from an order entered on November 12, 1992, denying defendant-appellee-cross-appellant's motion for attorneys' fees.

Affirmed.

DENNIS GROSSMAN, New York, New York (Eileen King, Grossman & King), *for Plaintiff-Appellant-Cross-Appellee*.

GLEN S. FEINBERG, New York, New York (Nina Cangiano, Wilson Elser Moskowitz Edelman & Dicker), *for Defendants-Appellees-Cross-Appellants*.

MILTON POLLACK, *Senior District Judge*:

Plaintiff-appellant-cross-appellee Banff, Ltd. ("Banff") is a New York corporation that manufactures, markets and sells women's clothing to retail stores. Banff owns the federally-registered trademark "Vanessa" under a November 2, 1988 assignment from Vanessa Knitwear, Ltd. Defendant-appellee-cross-appellant Colberts, Inc. ("Colberts") is a family-run chain of retail stores in Texas that sells women's clothing. The defendant-appellee-cross-appellant Tamara Imports is a separately run division of Colberts that sells women's clothing at wholesale prices to retail stores, including Colberts.

In the Spring of 1987, without first conducting a trademark search or obtaining Banff's consent, Tamara began selling garments with a Vanessa label. The decision to use the "Vanessa" label apparently was based on an admiration for the stage actress Vanessa Redgrave. In late September 1991, Banff filed a complaint against Colberts and Tamara, alleging federal trademark infringement and unfair competition claims and requesting an injunction and monetary damages. After Banff's complaint was served upon the defendants, they voluntarily stopped using the Vanessa label and offered to stipulate to the entry of a permanent injunction prohibiting them from using it in the future.

The plaintiff demanded a jury trial. The case was tried to the jury by plaintiff on the theory that willful infringement had occurred. The jury returned a special verdict finding that Banff had failed to prove that the defendants had willfully infringed Banff's trademark. There seems to have been a joint bench/jury trial. The jury tried only the issue of whether Colberts' infringement was willful. The District Court thus heard, as the trier of fact "two alternative theories"—"unjust enrichment and the use of registered trademark with statutory notice."

Immediately after the jury returned with its verdict, counsel for the plaintiff asked for the Court's permission to present oral argument on its "unjust enrichment and/or use of the statutory notice theories [because] Your Honor was going to try that to the bench rather than to the jury." After hearing the argument, the District Court ruled for defendants, based in large part on the *George Basch* decision referred to hereafter. In defendants' Civil Appeal Pre-Argument Statement, it conceded that the jury tried one issue and the bench tried two issues. The second issue

before the bench was statutory notice, rather than failure to search the registry (as it now argues). Based upon plaintiff's argument to the Court, it was a strict-liability-type argument: we deserve profits because we have a federally-registered mark which Colberts infringed. There was no mention of Colberts' failure to search the registry. Also, the Court did state that "all evidence" was to go to the jury. This undermined plaintiff's position in that it did not have to introduce evidence before the jury regarding defendant's failure to search the registry. The District Court entered a final judgment on the verdict dismissing Banff's complaint.

Following entry of judgment ordering the dismissal of the complaint, Banff moved pursuant to Fed.R.Civ.P. 59(e) for an amendment of the judgment to include a permanent injunction against infringement by the defendants of the trademark "Vanessa" and a monetary award to plaintiff of defendants' profits under that trademark. And the defendants moved for attorneys' fees. Both motions were denied. Banff appeals from the final judgment as entered against it, and the defendants cross-appeal from the District Court's denial of their motion for attorneys' fees.

There was no evidence in the trial of customer confusion, of deliberate infringement, of lost sales, or any other actual damage. In *George Basch Co. v. Blue Coral, Inc.*, 968 F.2d 1532, 1540 (2d Cir.), *cert. denied*, 113 S.Ct. 510 (1992), this Court held that "a plaintiff must prove that an infringer acted with willful deception before the infringer's profits are recoverable by way of an accounting." Here, the jury found no willful infringement by the defendants and Banff does not challenge that finding. In *George Basch*, the issue was clearly presented and articulated in an infringement case whether a plaintiff may

recover a defendant's profits without establishing that the defendant engaged in deliberately deceptive conduct. The Court of Appeals ruled that bad faith is a necessary predicate for an accounting: "In order to justify an award of profits, a plaintiff must establish that the defendant engaged in willful deception." *Id.* at 1534. In short, willful deceptive conduct is a necessary basis, a prerequisite for an award of profits. We explained in *George Basch* that so long as willfulness is established, an accounting of profits may be based upon 1) unjust enrichment, 2) damages, or 3) deterrence of a willful infringer. 968 F.2d at 1538. As stated in *George Basch*, "[a] profits award, premised on a theory of unjust enrichment requires a showing of actual consumer confusion, or at least proof of deceptive intent, so as to raise the rebuttable presumption of consumer confusion." *Id.* at 1538. "Thus, it would seem that for the defendant's enrichment to be unjust in terms of warranting an accounting, it must be the fruit of willful deception." *Id.*[1]

Plaintiff contended on the post-trial motion that as the holder of a federally-registered trademark it was entitled under sections 22 and 29 of the Lanham Act, 15 U.S.C. §§ 1072 and 1111, to recover defendants' profits as long as plaintiff had used the statutory notice of a registered trademark, "apart from the jury's obvious error in finding no willfulness" (sic).

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[1] Banff's reliance on *Mishawaka Rubber & Woolen Manufacturing Co. v. S.S. Kresge Co.*, 316 U.S. 203 (1942), for the proposition that the burden of proof rests on the defendant to disprove unjust enrichment in the absence of a finding of willful infringement is misplaced. As the District Court correctly noted, *Mishawaka* was decided prior to the enactment of the Lanham Act. To the extent that *Mishawaka* is inconsistent with § 35 of the Lanham Act, it is no longer good law.

This Court, in *George Basch*, *supra*, has ruled to the contrary and the denial of the amendment of the judgment was appropriate.

A further contention made by the plaintiff is that a jury trial had been waived and that the Court could act non-jury on the failure to make a search and make an award to plaintiff for that reason. Federal Rule of Civil Procedure 39(a) provides that jury trial may be waived by entering into a written stipulation filed with the court or an oral stipulation made in open court and entered on the record. Neither occurred in this case. In *Tray-Wrap Inc. v. Six L's Packing Co.*, No. 92-7798, slip op. 941, 946 (2d Cir. Jan. 20, 1993), this Court held that jury waivers "are to be 'scrutinized' with the utmost care." There is no evidence in the record that a jury trial was waived; to the contrary, the affirmative evidence is that the defendants insisted on the jury trial initially demanded by the plaintiff.

Following the trial, the defendants moved for an award of reasonable attorneys' fees as the prevailing parties contending that exceptional circumstances existed to warrant such an award in this trademark case. Section 35, Lanham Act; 15 U.S.C. § 1117(a). This Court has defined "exceptional circumstances" to include cases where a plaintiff prosecutes an action in bad faith. *See Motown Productions, Inc. v. Cacomm, Inc.*, 849 F.2d 781, 786 (2d Cir. 1988) (*per curiam*). A district court's decision to award attorneys' fees under § 35 of the Lanham Act is reviewed for abuse of discretion. *Centaur Communications, Ltd. v. A/S/M Communications, Inc.*, 830 F.2d 1217, 1229 (2d Cir. 1987).

The defendants contend that they are entitled to attorneys' fees because Banff's theories of recovery were directly contrary to this Court's decision in *George Basch*,

supra, and because Banff chose to continue its action even after the defendants offered to stipulate to the entry of a permanent injunction. In its order denying defendant's motion for attorneys' fees, the District Court reported that: "There is no basis from which to conclude that Banff acted capriciously or pursued this litigation in order to harass the defendants." A review of the record does not support a finding that the Court abused its discretion in declining to award attorneys' fees to the defendants.

Affirmed.

[Judgment of the Second Circuit]

[Filed June 14, 1993]

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

At a Stated Term of the United States Court of Appeals for the Second Circuit, held at the United States Courthouse in the City of New York, on the 14th day of June, one thousand nine hundred and ninety-three.

PRESENT: HON. ELLSWORTH A. VAN GRAAFEILAND
HON. RALPH K. WINTER, Circuit Judges
HON. MILTON POLLACK, District Judge*

BANFF, LTD.,

Plaintiff-Appellant-Cross-Appellee,

— v. —

COLBERTS, INC.; TAMARA IMPORTS, a Division of Colberts, Inc.; TAMARA IMPORTS, INC.,

Defendants-Appellees-Cross-Appellants.

92-9298
92-9334

Appeal from the United States District Court for the Southern District of New York.

* The Honorable Milton Pollack, Senior United States District Judge for the Southern District of New York, sitting by designation.

This cause came on to be heard on the transcript of record from the United States District Court for the Southern District of New York and was argued by counsel.

ON CONSIDERATION WHEREOF, it is now hereby ORDERED, ADJUDGED and DECREED that the Judgment of said district court be and it hereby is affirmed in accordance with the opinion of this court with costs to be taxed against the appellant.

ELAINE B. GOLDSMITH, Clerk
By:

/s/ EDWARD J. GUARDARO
Edward J. Guardaro
Staff Attorney

[District Court's judgment of dismissal]

[Filed July 17, 1992]

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

BANFF, LTD.,

Plaintiff,

— against —

COLBERTS, INC. and TAMARA IMPORTS, a Division of COLBERTS, INC., and TAMARA IMPORTS, INC.,

Defendants.

91 Civil 6585 (RLC)

JUDGMENT

A Jury Trial before the Honorable ROBERT L. CARTER, U.S.D.J., having begun on July 10, 1992, and at the conclusion of plaintiff's case the Court having reserved decision on defendant's motion for a directed verdict, thereafter the trial having continued and at the conclusion of defendants' case the Court having reserved decision on defendants' renewed motion for a directed verdict, and at the conclusion of the trial the jury having answered the attached "Special Verdict," and the jury in so doing having returned a verdict in favor of the defendant, and directing the Clerk of the Court to enter judgment accordingly, it is,

ORDERED, ADJUDGED AND DECREED: That the complaint be and it is hereby dismissed.

Dated: New York, New York
July 16, 1992

/s/ JAMES M. PARKISON
Clerk

APPROVED:

/s/ ROBERT L. CARTER
U.S.D.J.

This document was entered
on the docket on 7-20-92.

[District Court's order denying petitioner's motion to amend judgment of dismissal]

[Filed October 30, 1992]

Index No. 91 Civil 6585
(RLC)

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

BANFF, LTD.,

Plaintiff,

v.

COLBERTS, INC., and TAMARA IMPORTS, a division of COLBERTS, INC., and TAMARA IMPORTS, INC.,

Defendants.

NOTICE OF MOTION

Grossman & King
Attorneys for Plaintiff Banff, Ltd.
475 Fifth Avenue (Suite 1800)
New York, New York 10017
(212) 599-2410

Memo endorsed.

10/29/92. Motion denied.

So ordered /s/ ROBERT L. CARTER
U.S.D.J.

[District Court's opinion and order denying respondents' cross-motion for attorneys fees]

[Filed November 12, 1992]

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

BANFF, LTD.,

Plaintiff.

— against —

COLBERTS, INC., and TAMARA IMPORT, a division of COLBERTS, INC., and TAMARA IMPORTS, INC.,

Defendants.

OPINION

91 Civ. 6585 (RLC)

APPEARANCES

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SUSAN UPTON DOUGLASS
Of Counsel

ROBERT L. CARTER, District Judge

Plaintiff Banff, Ltd. ("Banff") brought this action alleging trademark infringement and false designation of origin under sections 35 and 43(a) of the Lanham Act, 15 U.S.C. §§ 1117, 1125(a), and pendent state claims. The defendants, having prevailed after a jury trial, presently seek an award of attorney fees and costs in accordance with Lanham Act § 35(a).

Banff is a New York corporation which designs, manufactures, and markets women's apparel, and has used the federally-registered trademark "Vanessa" since 1982. Beginning in 1987, defendant Tamara Import, a division of defendant Colberts, Inc. ("Colberts") also began selling women's apparel with a label that read "Vanessa". After receiving the plaintiff's complaint, however, the defendants did not contest Banff's exclusive trademark right, and promptly stopped using the infringing word.

Since plaintiff did not attribute any lost sales to the defendants' unauthorized use of the name "Vanessa" and conceded that it did not know a single instance of actual confusion by consumers, the sole factual issue presented at trial was whether defendants' infringement was willful. *See, e.g., W.E. Bassett Co. v. Revlon, Inc.*, 435 F.2d 656, 664 (2d Cir. 1970). That question was resolved by a jury in favor of defendants.

Pursuant to section 35(a) of the Lanham Act, the court may award reasonable attorney fees to the prevailing party in "exceptional cases." This provision was designed, in part, to protect innocent defendants "against unfounded suits brought by trademark owners for harassment and the like." S. Rep. No. 93-1400, 93rd Cong., 2d Sess., reprinted in 1979 U.S. Code Cong. & Ad. News 7132, 7136; *see also Motown Productions, Inc. v. Cacomm, Inc.*, 849 F.2d 781, 786 (2d Cir. 1988).[1] Thus, a case is "exceptional" for the purpose of recovering a prevailing defendant's attorney fees only if the plaintiff's claim was baseless, capricious, unreasonable, or otherwise pursued in bad faith.

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[1] On the other hand, a prevailing plaintiff may be entitled to attorney fees upon a showing that the infringement was done "willfully, intentionally, and with a callous and reckless disregard." *Getty Petroleum Corp. v. Bartco. Petroleum Corp.*, 858 F.2d 103, 114 (2d Cir. 1988), *cert. denied*, 490 U.S. 1006 (1989).

See, e.g., Warner Bros., Inc. v. American Broadcasting Companies, Inc., 222 U.S.P.Q. (BNA) 544 (S.D.N.Y. 1982) (Motley, J.); *Simon Says Enterprises, Inc. v. Schaffer*, 218 U.S.P.Q. (BNA) 146 (S.D.N.Y. 1982) (Lowe, J.).[2]

The defendants argue that this case is "exceptional" because the plaintiff's claim was unreasonable and in bad faith. According to the defendants, plaintiff could not rationally have believed that the infringement was willful. At trial, however, the plaintiff presented testimony that a buyer for Colberts retail stores once placed an order for Banff "Vanessa" sweaters. The general merchandise manager for Colberts was also aware of the order.

Although no evidence was presented that these employees reported their awareness of plaintiff's label to any superiors at Colberts or the Tamara Import division, a reasonable juror could have concluded otherwise. Thus, the plaintiff's case was not "so patently baseless" that it constituted bad faith. *Diamond Supply Co. v. Prudential Paper Products Co.*, 589 F.Supp. 470, 476 (S.D.N.Y. 1984) (Duffy, J.); *see also Warner Bros.*, 222 U.S.P.Q. (BNA) at 544.

In addition, the defendants emphasize that this court twice rejected two legal theories underlying plaintiff's action. Def. Mem. pp. 6–8.[3] According to one of Banff's theories, a trademark owner is *automatically* entitled to damages for infringement if its trademark is displayed with statutory notice of federal registration. Since Banff did just that with respect to its "Vanessa" labels, plaintiff maintained that the defendants could not escape liability even if there was no proof of "willfulness" or actual confusion to consumers. Although plaintiff cited no case law to

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2 Not surprisingly, defendants are rarely awarded attorney fees in trademark infringement cases. *Yeshiva University v. New England Educational Institute*, 631 F. Supp. 146, 149 (S.D.N.Y. 1986) (Sand, J.). *See also* Robin C. Larner, Annotation, *Award of Attorneys' Fees Under § 35(a) of Lanham Act (15 USCS § 1117(a)) Authorizing Award in "Exceptional Cases"*, 82 A.L.R. Fed. 143 (1991).

3 These theories, discussed below, were rejected at pre-trial conference and again upon motions following trial. The same arguments were also the basis of plaintiff's motion to amend the judgment, under Rule 59(e), F.R.Civ.P., denied October 27, 1992.

support this argument, Banff claimed its position was grounded in section 29 of the Lanham Act, 15 U.S.C. § 1111. However, section 29 is inapposite. It merely provides that a registrant, who fails to display the requisite indicia of federal trademark registration, cannot recover damages in a suit for infringement unless the defendant had actual notice of the registration. This section has not been used affirmatively to establish an infringer's willfulness or to circumvent the requirement that intent be shown.[4]

According to plaintiff's second misguided theory, Banff could recover damages for unjust enrichment even if defendants infringed unintentionally. This suggestion was squarely rejected by the Second Circuit on the eve of trial in this case. *See, George Basch Co. v. Blue Coral, Inc.*, 968 F.2d 1532, 1537 (2d Cir. 1992), *petition for certiorari filed* (Sept. 25, 1992).

Even so, plaintiff's action proceeded to trial because Banff properly pleaded a cause of action for willful trademark infringement. Thus, Banff's reliance on faulty interpretations of the law does not support an award of attorney fees on the basis that the lawsuit was unfounded.

Finally, the defendants contend that Banff's bad faith was exemplified when it rejected a settlement offer, did not take the defendants' depositions prior to trial, and never examined some of the documents which defendants had been asked to produce. Def. Mem. p. 4. Although some of plaintiff's pre-trial tactics were imprudent, its conduct is insufficient to establish bad faith.[5]

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[4] Likewise, section 22 of the Lanham Act, 15 U.S.C. § 1072, also relied on by plaintiff, lends no support to plaintiff's position. Although it provides that registration is "constructive notice" of ownership, its purpose was to remove the common law "good faith" defense to infringement claims, not to eliminate the willfulness requirement. *See, e.g., Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358, 362 (2d Cir. 1959).

[5] Plaintiff's conduct does not remotely compare to the behavior adjudged bad faith in other trademark infringement cases. *See, e.g., Simon Says Enterprises*, 218 U.S.P.Q. (BNA) at 146 (plaintiff acted willfully and in bad faith because it falsely claimed an exclusive right to use the children's game, "Simon Says" as an entertainment; allowed defendant to use the term "Simon Sez" in promoting his act for three years before suing; and commenced this action when it had reason to know it was barred by laches);

Moreover, there is no basis from which to conclude that Banff acted capriciously or pursued this litigation in order to harass the defendants. *See Diamond Supply*, 589 F.Supp. at 476; *Motown Productions*, 849 F.2d at 786.

CONCLUSION

Accordingly, defendants' motion for attorney fees pursuant to section 35 of the Lanham Act is denied.

IT IS SO ORDERED.

Dated: New York, New York
November 12, 1992

/s/ ROBERT L. CARTER
Robert L. Carter
U.S.D.J.

Viola Sportswear, Inc. v. Mimun, 574 F.Supp. 619 (E.D.N.Y. 1983) (president of plaintiff corporation admitted that there was no basis upon which a reasonable person could conclude that the charges in the complaint were valid); *Orient Express Trading Co. v. Federated Department Stores, Inc.*, 1987 U.S. Dist. LEXIS 12435 (S.D.N.Y.) (Motley, J.), *aff'd* 842 F.2d 650 (2d Cir. 1988) (plaintiff fraudulently obtained the trademarks to create a basis for its litigation).

[Stipulations of petitioner's use of statutory notice "®" in compliance with Lanham Act § 29 (15 U.S.C. § 1111)]

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

BANFF, LTD.,

Plaintiff,

v.

COLBERTS, INC., and TAMARA IMPORTS, a division of COLBERTS, INC., and TAMARA IMPORTS, INC.,

Defendants.

91 Civ. 6585 (RLC)

July 10, 1992
10:12 am

Before:

HON. ROBERT L. CARTER,

District Judge and a jury

* * *

[31]

MR. GROSSMAN [petitioner's counsel]: I wanted to ask the question. If the defendants concede it, we have continually used the trademark with the statutory notice R, then I'll get on to something else if the defendants will concede it.

MR. HIRSCH [respondents' counsel]: We have never contested they used a trademark and it had a registered R on it.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

[Filed August 6, 1992]

BANFF, LTD.,

Plaintiff,

v.

COLBERTS, INC., and TAMARA IMPORTS, a division of COLBERTS, INC., and TAMARA IMPORTS, INC.,

Defendants.

Civil Action No.
91 Civ. 6585 (RLC)

DEFENDANTS' MEMORANDUM OF LAW IN OPPOSITION TO PLAINTIFF'S MOTION TO AMEND JUDGMENT UNDER RULE 59(E) OF THE FEDERAL RULES OF CIVIL PROCEDURE

* * *

[9]

[I]t is stipulated that plaintiff did use the statutory notice ["®" under] section 29.

[Stipulation of respondents' profits under infringing trademark]

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

BANFF, LTD.,

Plaintiff,

v.

COLBERTS, INC., and TAMARA IMPORTS, a division of COLBERTS, INC., and TAMARA IMPORTS, INC.,

Defendants.

91 Civ. 6585 (RLC)

July 10, 1992
10:12 am

Before:

HON. ROBERT L. CARTER,

District Judge and a jury

* * *

[67]

MR. GROSSMAN [petitioner's counsel]: The parties dispute the deductibility of overhead, but it is stipulated between the parties that the defendants' profits in connection with their use of the Vanessa trademark, exclusive of overhead which the parties dispute, is $137,189.09.

THE COURT: Okay. Do you stipulate?

MR. HIRSCH [respondents' counsel]: We stipulate that this is our interim profit figure exclusive of overhead.

THE COURT: All right.

* * *

(2)

Supreme Court, U.S.
FILED
NOV 12 1993
OFFICE OF THE CLERK

No. 93-416

IN THE

Supreme Court of the United States

OCTOBER TERM, 1993

BANFF, LTD.,

Petitioner,

vs.

COLBERTS, INC., and TAMARA IMPORTS,
a division of COLBERTS, INC., and
TAMARA IMPORTS, INC.,

Respondents.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

RESPONDENTS' BRIEF IN OPPOSITION

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COUNTERSTATEMENT OF ISSUE PRESENTED FOR REVIEW

Whether a plaintiff alleging trademark infringement under the Lanham Act may recover the profits of the alleged infringer when there is no evidence of consumer confusion or willful infringement but rather repeated concessions that plaintiff did not incur any actual damage.

LIST OF PARTIES AND RULE 29.1 STATEMENT

The caption of the case in this Court lists all parties to the proceeding in the United States Court of Appeals for the Second Circuit, whose judgment is sought to be reviewed. Respondents, Colberts, Inc. and Tamara Imports, a division of Colberts Inc., and Tamara Imports, Inc., are privately held corporations which have no parent companies, subsidiaries or affiliates that have issued shares to the public.

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A. The Court of Appeals Applied Well Established Precedent And Concluded That Petitioner Is Not Entitled To An Award Of Profits Because The Jury Found, And The Evidence Proved, That Respondents Did Not Willfully Infringe Petitioner's Federally Registered Trademark. 12

B. The Court of Appeals' Decision Does Not Conflict With The Decisions Of This Court Or The Decisions Of Other Circuits Requiring Proof Of Fraudelent Intent To Sustain Profits Recovery. 22

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No. 93-416

In The

SUPREME COURT OF THE UNITED STATES

October Term 1993

BANFF, LTD.,

Petitioner,

vs.

COLBERTS, INC., and TAMARA IMPORTS, a division of COLBERTS, INC., and TAMARA IMPORTS, INC.,

Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

RESPONDENTS' BRIEF IN OPPOSITION

Respondents, Colberts, Inc. and Tamara Imports, a division of Colberts, Inc.; and Tamara Imports, Inc., respectfully request that this Court deny the Petition for A Writ of Certiorari seeking review of the decision of the United States Court of Appeals for the Second Circuit.

OPINIONS BELOW

The opinion of the United States Court of Appeals for the Second Circuit is reported at 996 F.2d 33 (2d Cir. 1993) and is reproduced in the Appendix at A1-7 in the Petition for a Writ of Certiorari.[1] The judgment of the United States Court of Appeals for the Second Circuit is reproduced in the Appendix at A8 in the Petition for A Writ of Certiorari. The opinion of the United States District Court for the Southern District of New York is reported at 810 F. Supp. 79 (S.D.N.Y. 1992) and is reproduced in the Appendix at A10. The judgment and decision of the United States District Court for the Southern District of New York are reproduced in Petitioner's Appendix at A12 and A13.

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[1]References to Petitioner's Appendix are denominated as A1-A21. References to Respondents' Appendix are denominated as Aa-Ae.

STATUTES INVOLVED

Lanham Act §22 (15 U.S.C. §1072):

> Registration of a mark on the principal register provided by this chapter. . .shall be constructive notice of the registrant's claim of ownership thereof.

Lanham Act §29 (15 U.S.C. §1111):

> Notwithstanding the provisions of section 1072. . ., a registrant of a mark registered in the Patent Office, may give notice that his mark is registered by displaying with the mark . . . ®; and in any suit for infringement under this chapter by such a registrant failing to give such notice of registration, no profits and no damages shall be recovered unless the defendant had actual notice of the registration.

Lanham Act §35(a) (15 U.S.C. §1117(a)):

> When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office shall have been established in any civil action arising under this chapter, the plaintiff shall be entitled. . . subject to the principles of equity, to recover (1) defendant profits, (2) any damages sustained by plaintiff, and (3) the costs of the action. . . . In assessing profits, the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed. . .

STATEMENT OF THE CASE

Summary of Facts and Procedural Background.

Petitioner, Banff, Ltd., ("Petitioner") commenced this action alleging that respondents, Colberts, Inc., and Tamara Imports, a division of Colberts, Inc. and Tamara Imports, ("Respondents") sold women's clothes with labels that bore the name Vanessa. Petitioner alleged that it owned the federally registered trademark Vanessa and that respondents infringed the trademark in violation of the Lanham Act. Respondents denied all allegations of wrongdoing and specifically denied intentional infringement of the Vanessa trademark.

Respondent, Colberts, is a family run chain of retail stores selling moderately priced women's apparel.

Respondent, Tamara Imports, is a separately run division of Colberts which sells women's apparel at wholesale prices to retail stores including Colberts. In the spring of 1987, the vice president of Colberts proposed that Tamara Imports begin selling garments with a Vanessa label. This name was chosen out of admiration for the actress Vanessa Redgrave and without any knowledge of petitioner's federally registered trademark. Respondent was completely unaware of the existence of petitioner's trademark at the time it began using the name Vanessa on its clothing. (Ab(i)-(ii).)

In October 1991, four years after respondents began using the name Vanessa, petitioner commenced the instant lawsuit. Upon receipt of the complaint, respondents learned that

Vanessa was a federally registered trademark owned by petitioner and terminated future use of the Vanessa label. (Ab(i), Ac.) Respondents offered to enter into a permanent injunction precluding the use of the name Vanessa on Colberts' products. (Ab(i)-(ii).) Despite respondents' efforts to resolve this matter, petitioner pursued this lawsuit.

A jury trial was held before Honorable Robert L. Carter on July 10, 1992 in the United States District Court for the Southern District of New York. Petitioner's recitation of the legal theories presented to the District Court is misleading. Petitioner presents a neat package of three enumerated legal theories which it claims were presented to the District Court. In fact, petitioner's presentation of the legal

issues and evidence at trial was random and disorganized. Petitioner was continuously admonished by Judge Carter to present all evidence concerning its claims to the jury. The court continuously cautioned petitioner that it had not presented any evidence of consumer confusion, unjust enrichment or intentional willful infringement. (Ad(i)-(iv), Ae(i)(ii).)[2]

The jury returned a special verdict finding that petitioner had failed to prove that the respondents had willfully infringed petitioner's trademark. (A3.) After the jury announced its verdict, petitioner then requested the court's permission to present oral argument on its unjust enrichment claim and its

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[2]Petitioner conceded at trial that there was no evidence of consumer confusion or lost sales as a result of respondents' innocent use of the Vanessa label. (Aa.)

statutory notice claim. (A3.) Following a brief oral argument, the District Court ruled in favor of the respondents and dismissed petitioner's claims. The District Court relied upon well established precedent which requires proof of intentional misconduct or consumer confusion before allowing a profits recovery in a trademark infringement suit.[3] The District Court entered a final judgment on the verdict dismissing petitioner's complaint. (A 10.)

Petitioner then moved, pursuant to Federal Rule of Civil Procedure 59(e), for an amendment of the judgment to

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[3]Petitioner insinuates that it was sandbagged by the District Court's reliance on George Basch Co., Inc. v. Blue Coral, Inc., 968 F.2d 1532 (2d Cir.), cert. denied 113 S.Ct. 510 (1992). George Basch merely summarized established legal precedent concerning the burden of proof necessary to justify a profits recovery in infringement suits. George Basch did not create new law.

include a permanent injunction and a monetary award. Respondents cross-moved for an award of attorney's fees under the Lanham Act. Respondents argued that the case was "exceptional" inasmuch as petitioner's claims were unfounded and prosecuted in bad faith. Respondents argued that petitioner did not present any evidence of willful infringement and that petitioner failed to produce a shred of evidence demonstrating that it had suffered any damage whatsoever. The District Court denied petitioner's motion without opinion (A12) and denied respondents' cross-motion in a written decision. (A13 - A17.) In its decision, the District Court noted that while petitioner's legal theories were misguided and its pre-trial tactics imprudent, petitioner's conduct was insufficient to establish bad faith to

justify an award of attorney's fees under the Lanham Act. (A16.)

Petitioner timely appealed from the judgment of the District Court. Petitioner did not seek to set aside the jury's verdict finding no evidence of willful infringement nor did it assert as error any of the District Court's instructions to the jury.[4] Respondents filed a cross-appeal seeking reversal of the District Court's denial of its motion for attorney's fees.

The Court of Appeals affirmed the District Court's judgment in all respects. The Court of Appeals

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[4]Petitioner's appeal was a transparent attempt to cure its trial errors and failure of proof concerning willful infringement and actual damages. Indeed, petitioner attempted to raise on appeal an issue not raised at trial; namely, a "failure to search claim." The Court of Appeals rejected petitioner's contentions and petitioner has not sought review of these rulings.

concluded that "there was no evidence in the trial of customer confusion, of deliberate infringement, of lost sales, or any other actual damage." (A4.)[5]

In affirming the District Court's judgment, the Court of Appeals did not create new law, depart from established precedent, or develop a new burden of proof concerning profits recovery in infringement suits. Rather, the Court of Appeals properly applied well established legal principles to the specific facts of this case. Petitioner's laborious attempt to demonstrate a divergence of authority among the Circuits concerning profits recovery in infringement cases is

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[5]The Court of Appeals also affirmed the District Court's denial of respondents' motion for attorney's fees holding that "the Record does not support a finding that the Court abused its discretion in declining to award attorney's fees to the defendants." (A7.)

unconvincing. For the reasons which follow, respondents respectfully request that the Court deny the Writ.

REASONS FOR DENYING THE WRIT

A. The Court of Appeals Applied Well Established Precedent And Concluded That Petitioner Is Not Entitled To An Award Of Profits Because The Jury Found, And The Evidence Proved, That Respondents Did Not Willfully Infringe Petitioner's Federally Registered Trademark.

Petitioner's elaborate attempt to present an important or novel question of law which warrants review by this Court is not legally sustainable or factually credible. The Court of Appeals' reliance on well established precedent concerning profits recovery does not depart from congressional mandate, this Court's rulings or precedent in other Circuits. To the contrary, the Court of Appeals' ruling in this case was fact specific and based

exclusively on the finding that "there was no evidence in the trial of customer confusion, of deliberate infringement, of lost sales, or any other actual damage." (A4.)

Petitioner's statement that "the Second Circuit held that Congress overruled this Court's decision in Mishawaka", completely distorts the Court of Appeals' holding in this case.[6] The Court of Appeals simply held that petitioner did not meet its burden of proof and, having accepted the jury's finding of no willfulness, petitioner could not recover respondents' profits. (A1-7.) In examining the factual, legal and policy

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[6]In addition, petitioner's statement that "Congress overruled this Court's decision in Mishawaka", is factually incorrect. Indeed, Congress does not overrule Supreme Court decisions. Congress enacts legislation pursuant to its authority to do so granted under the United States Constitution.

arguments presented by petitioner, the Court of Appeals focused upon petitioner's complete failure of proof and the jury's finding of no willful infringement by the respondents.

The Court of Appeals reiterated its recent holding in George Basch Co. v. Blue Coral, Inc., 968 F.2d at 1532, where the court clearly articulated the standard of proof necessary to support a profits recovery in a trademark infringement action. The Court of Appeals reasoned that "in order to justify an award of profits, a plaintiff must establish that the defendant engaged in willful deception." Id. at 1534 (A5.) Acknowledging that petitioner did not challenge the jury's verdict finding no willful infringement by respondent, the Court of Appeals

concluded that the District Court's judgment was appropriate.

With respect to petitioner's claims of unjust enrichment and statutory notice, the Court of Appeals again referred to its recent decision in George Basch. (A5.) The Court of Appeals reiterated, "as stated in George Basch, 'a profits award, premised on a theory of unjust enrichment requires a showing of actual consumer confusion, or at least proof of deceptive intent, so as to raise the rebuttable presumption of consumer confusion.'" (A5.) At trial, petitioner did not produce a shred of evidence concerning consumer confusion and in fact conceded that it did not suffer lost sales as a result of respondents' use of the Vanessa label. (Aa.) Accordingly, the Court of Appeals

affirmed the District Court's judgment in all respects. (A4-6.)

In a footnote, the Court of Appeals noted that petitioner's reliance on Mishawaka Rubber & Woolen Mfg. Co. v. S. S. Kresge Co., 316 U.S. 203 (1942) was misplaced. (A5.) The Court of Appeals explained that to the extent Mishawaka, which was decided prior to the enactment of the Lanham Act, is inconsistent with §35 "it is no longer good law." (A5.) The Court of Appeals did not hold that Congress overruled this Court's decision in Mishawaka. To the contrary, the Court of Appeals acknowledged that petitioner's reliance on Mishawaka, "for the proposition that a defendant has the burden of disproving unjust enrichment in the absence of a finding of willful infringement," was erroneous. (A5, n.1.)

Petitioner has truly mis-characterized the Court of Appeals' footnote. Petitioner's motives in so doing are obvious. However, petitioner's transparent attempt to present a novel question of law which warrants review by this Court must be rejected.

This Court's decision in Champion Spark Plug Co. v. Sanders, 331 U.S. 125 (1947) dispelled the notion that an accounting would be justified without evidence of actual injury to the plaintiff and the existence of

fraudulent intent by the defendant.[7]

The Court explained:

> Mishawaka Rubber & Woolen Mfg., Co. v. S.S. Kresge Co., 316 US 203, . . . states the rule governing an accounting of profits where a trademark has been infringed and where there is a basis for finding damage to the plaintiff and profit to the infringer. But it does not stand for the proposition that an accounting will be ordered merely because there has been an infringement.

Id. at 130-131 (Emphasis added.)

While some commentators have cited Mishawaka to support an accounting of

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[7]In his award winning article James Koelemay noted that the Court in Champion Spark Plug cited several factors which governed the propriety of an accounting including; "the existence of fraudulent intent by the defendant, evidence of actual injury to the plaintiff, and the likelihood of profits having accrued to the defendant due to the infringement". James M. Koelemay, Jr., Monetary Relief For Trademark Infringement Under the Lanham Act, 72 Trademark Rep. 458, 478 n. 122 (1982).

profits in the absence of fraudulent intent, other commentators have rejected this interpretation as erroneous.[8]

Here, as the jury verdict confirms, there is no basis for awarding respondents' profits to petitioner. Even Mishawaka does not support a profits award in this action since it is clear that petitioner did not prove infringement, nor did it prove that it suffered any damages.

Petitioner's policy arguments concerning the regulation of potential windfall recoveries in infringement cases is another transparent attempt to

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[8]Koelemay, supra note 7 at 478, n. 122 (citing, Developments in the Law-Trade-Marks and Unfair Competition, 68 Harv. L. Rev. 814, 866 (1955); Paul H. Hubbard, Monetary Recovery Under the Copyright, Patent, and Trademark Acts, 45 Tex L. Rev. 953, 978 (1967), 58 Trademark Rep. 560,587 (1968), for the proposition that Mishawaka allows an accounting of profits without proof of fraudulent intent.). Mr. Koelemay concludes that "this interpretation is erroneous."

invoke this Court's discretionary jurisdiction. The result reached by the Court of Appeals in this case does not endanger the carefully balanced regulatory framework and recent Court decisions interpreting this framework. There can be no doubt that the Court of Appeals carefully considered the substantive protections bestowed upon the public through the Lanham Act as distinguished from the mere procedural protections the Lanham Act provides to trademark owners. Clearly, the Court of Appeals was mindful of the adverse consequences which could result from allowing a profits recovery where neither intent to deceive nor actual consumer confusion is present.

Petitioner's suggestion that it is entitled to recover respondents' profits by simply demonstrating that respondents

sold products bearing a registered label is tantamount to strict liability. Taking petitioner's argument to its logical conclusion would encourage meritless lawsuits by plaintiffs who are unable to prove damages and who are not harmed by consumer confusion.

Petitioner advocates windfall recoveries based solely on evidence demonstrating the use of a federally registered trademark. This result would not foster competition, the premier goal of the Lanham Act. Rather, it would encourage big business and corporate leaders to manipulate the market and discourage competition with the threat of expensive and protracted trademark litigation. Such a result would directly contravene the congressional intent to foster competition while protecting goodwill and preventing diversion of

trade through misrepresentation. See S. Rep. No. 1333, 79th Cong., 2d Sess. 1274 (1946).

The result reached by the Court of Appeals in this case is consistent with the congressional mandate as embodied in the Lanham Act and does not merit review by this Court.

B. The Court of Appeals' Decision Does Not Conflict With The Decisions Of This Court Or The Decisions Of Other Circuits Requiring Proof Of Fraudelent Intent To Sustain Profits Recovery.

Contrary to petitioner's misleading arguments, the Court of Appeals did not confuse the burden of proof, did not reject established precedent and did not create a new burden of proof concerning profits recovery. The Court of Appeals adopted the reasoning of many earlier cases holding that an accounting for profits is available "only if the

'defendant is unjustly enriched, if the plaintiff sustained damages from the infringement, or if the accounting is necessary to deter a willful infringer from doing so again.'"[9] The Court of Appeals reviewed well established precedent governing profits recovery and concluded that, "willful deceptive conduct is a necessary basis, a prerequisite for an award of profits." (A5.) Inasmuch as petitioner completely failed to sustain its burden of proof, could not show confusion, and accepted the jury's finding of no willfulness, the Court of Appeals

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[9]See George Basch v. Blue Coral, 968 F.2d at 1538 (citing Burndy Corp. v. Teledyne Indus., Inc., 748 F.2d at 772 (monetary relief for unjust enrichment "is rarely granted and appears to have been limited to situations in which the defendants's profits represented unjust enrichment from diversion of business which clearly otherwise would have gone to plaintiff.") (quoting W.E. Bassett Co. v. Revlon, Inc., 435 F.2d 656, 664 (2d Cir. 1970)); Hamilton Brown Shoe Co. v. Wolf Brothers & Co., 240 U.S. 251, 259, 261 (1916) (where imitation of mark is fraudulent, plaintiff may recover profits "attributable to defendant's use of the offending mark."))

correctly held that a profits award could not be based on the theory of unjust enrichment, or any other theory.

Despite petitioner's protestations to the contrary, George Basch, did not represent a dramatic change in trademark law. In George Basch, the Court of Appeals analyzed the historical changes in the law concerning profits recovery, recognizing that;

> In varying degrees, a finding of defendant's intentional deceptiveness has always been an important consideration in determining whether an accounting was an appropriate remedy.

Id. at 1539.

The Court of Appeals adopted the view of the American Law Institute which requires a finding of willful infringement in order to sustain a profits recovery. Id. at 1540 (citing Restatement, §37(1)(a)) ("One...is

liable for the net profits earned on profitable transactions resulting from [the infringement], if, but only if, the actor engaged in conduct with the intention of causing confusion or deception...".) The Court of Appeals concluded;

> We believe that [a willfulness] requirement is necessary to avoid the conceiveably draconian impact that a profits remedy might have in some cases. While damages directly measure the plaintiff's loss, defendant's profits measure the defendant's gain. Thus, an accounting may overcompensate for a plaintiff's actual injury and create a windfall judgment at the defendant's expense.

Id. at 1540 (Emphasis in original.)

The Court of Appeals in this case, relying on its decision in George Basch, did not alter the right to monetary relief under the Lanham Act, it merely applied established precedent to the facts of this case. Petitioner's

inability to meet its burden of proof and establish damage, willful intent to deceive and/or consumer confusion foreclosed it from profits recovery. The Court of Appeals' decision is consistent with established precedent.

The authority cited by petitioner does not demonstrate a conflict among the Circuits concerning profits recovery in trademark actions. Analysis of the authority cited demonstrates that court decisions which interpret the Lanham Act apply essentially equitable principles to the specific facts of each case; the statute so commands. Thus, it follows that each decision will turn on the particular facts before the court.

The cases cited by petitioner confirm that proof of damage is essential to sustain profits recovery. Petitioner

has not cited any compelling reason for this Court to grant Certiorari. None of the cases cited by petitioner conflict with the Court of Appeals decision here.

The profits award affirmed by the Seventh Circuit in Roulo v. Russ Berrie & Co., 886 F.2d 931 (7th Cir. 1989), cert. denied, 493 U.S. 1075 (1990), was based on "evidence of intentional imitation and the substantial similarity between the two card lines". Id. Indeed, the court acknowledged that "where plaintiff seeks an award of damages, plaintiff must show that the defendant's infringement caused those losses." Id. at 941. The Seventh Circuit's acknowledgement that general equitable considerations govern an award of profits does not conflict with the Court of Appeals decision in this case. An award of profits is only appropriate

when the plaintiff can prove that the defendants' infringement caused specific losses. Id.

In Williamson-Dickie Co. v. Davis Mfg. Co., 251 F.2d 924 (3d Cir. 1957), the court acknowledged the burden of proof necessary to sustain an accounting for profits in a trademark infringement action. The Third Circuit's holding in Williamson-Dickie is consistent with the Court of Appeals' reasoning in this case. The court reasoned that:

> An accounting for profits is a form of equitable relief, and it does not follow as a matter of course upon the mere showing of an infringement. It will be denied where an injunction satisfies the equities of a case, as for example where there is a clear showing that no profit was made.

251 F.2d at 927.

Similarly, the award of profits in Wolfe v. National Lead Co., 272 F.2d 867 (9th Cir. 1959), was based exclusively on a finding of deliberate and fraudulent infringement. The court specifically concluded that:

> It was not innocent,. . . . As has been judicially determined, it was a deliberate and fraudulent appropriation to himself of the good will of appellee. . . he was knowingly and deliberately cashing in upon the good will of appellee. This is such an infringement as will justify an accounting of profits.

Id. at 871.

In Blue Bell Co. v. Frontier Refining Co., 213 F.2d 354 (10th Cir. 1954), the award of profits was based on a specific finding that Frontier was entitled to recover Blue Bell's profits "attributable to the use of the Frontier trademark. . . during the period of infringement." Id. at 362. Obviously,

the profits award was based on proof of actual damage.

Finally, the award of profits in Burger King Corp. v. Mason, 855 F.2d 779 (11th Cir. 1988) was similarly premised on the finding of intentional infringement. There, the defendant was a franchisee who continued to use the franchisor's registered trademark after he knew that his franchise had been terminated. Id. at 780.

Even the cases cited by petitioner demonstrate that proof of damages is essential to sustain an accounting for profits. Here, because petitioner was unable to prove that it suffered any damages and repeatedly conceded that it had no evidence of consumer confusion, the Court of Appeals properly affirmed

the District Court's judgment dismissing the complaint.

Petitioner's claim that a litigant seeking to commence a trademark action must first consult an "interstate roadmap" is pure fancy. The Court of Appeals' decision in this case is consistent with the history and intent of the Lanham Act. The specific language of §35 leaves to the court the task of organizing the rules of recovery into a coherent and rationale scheme; the statute provides, when a violation occurs, "the plaintiff shall be entitled,. . . subject to the principles of equity, to recover . . . ."

In assessing whether a plaintiff is entitled to recover defendant's profits, courts have been careful to avoid windfall recoveries and have required

varying levels of proof demonstrating that the infringement has caused damage to the plaintiff's goodwill developed in the mark. While each court is free to fashion recovery "subject to the principles of equity," each court decision confirms that a finding of willful infringement is the "necessary catalyst for the discouragement of illgotten profits." See Restatement (Third) of Unfair Competition §37(1)(a) (Tentative Draft No. 3, 1991). The decision of the Court of Appeals in this case is completely consistent with prior decisions applying the principles embodied in the Lanham Act.

This case does not present an opportunity for the Court to clarify conflicting decisions among the Circuits or unify the rules of recovery in trademark infringement actions. Rather,

this case presents a garden-variety trademark litigation where petitioner's proof at trial failed to meet the standard required to sustain a profits recovery.

The issues presented by this case do not warrant review by this Court.

CONCLUSION

For the foregoing reasons, the Petition for a Writ of Certiorari should be denied.

Dated: New York, New York
November 12, 1993

Respectfully submitted,

Nina Cangiano
Counsel of Record

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A P P E N D I X

EXCERPT FROM DISTRICT COURT PROCEEDINGS

UNITED STATES DISTRICT COURT
Southern District of New York

BANFF, LTD.,

Plaintiff,

v.

COLBERTS, INC., and TAMARA IMPORTS, a division of COLBERTS, INC., and TAMARA IMPORTS, INC.,

Defendants.

---

91 Civ. 6585 (RLC)

July 10, 1992
10:12 am

Before:

Hon. Robert L. Carter,

* * *

THE COURT: You can't establish any consumer confusion because that is not in this case, there is no actual confusion. That is out of the case.

MR. ZELNICK: There is no lost sales, either your, Honor. It is stipulated.

MR. GROSSMAN: We are not contending lost sales.

* * *

RESPONDENTS' OFFER OF SETTLEMENT DATED OCTOBER 30, 1991.

October 30, 1991

BY HAND

Dennis Grossman, Esq.
Grossman & King
475 Fifth Avenue, Suite 1800
New York, New York 10017

Re: Banff, Ltd. v. Colberts, Inc. and Tamara Imports, Inc., Civil Action No. 91-6585 (RLC)

Dear Dennis:

I refer to our telephone conversation on October 24, 1991.

This will confirm the information I conveyed to you by telephone, that my clients used the VANESSA label dating back to 1985 or 1986, without any knowledge of your client's use or registration of this mark. This was an innocent mistake, inasmuch as no searches were conducted on this mark in the mistaken belief that no one could "own" the commonly used name Vanessa. My clients have had the practice of adopting attractive sounding names as labels for their clothing, without the realization that these may be trademarks that could be owned by others. To the best of my clients' knowledge and belief, no one has ever questioned whether the VANESSA label, which was used for missy sweaters and blouses, was in any way connected with your client.

In view of the totally innocent, albeit unsophisticated, behavior of my clients, this is not a case for money damages, and my clients are not willing to offer any payment to your client, in the absence of documented confusion. Considering that there has been coextensive for five or six years, with most of my clients' sales limited to their own stores, it is highly unlikely that there has been any such confusion.

I realize that you have been unsuccessful in the past with sending demand letters and obtaining favorable results from alleged infringers. In this instance, a simple letter would have sufficed. However, because you did in fact make the effort of filing a complaint, and because my clients do not challenge your client's rights in the VANESSA mark, my clients are willing to enter into a judgment on consent, without any admission of liability. If you would prepare an appropriate document, I will review it and, if it is acceptable, forward it to my clients for signature.

As we discussed, I am enclosing an original and two copies of a Stipulated Extension of my clients' time to answer for 20 days. Please sign the Stipulation on behalf of your client, and return it to me for filing with the court.

I look forward to working with you to resolve this matter on an amicable basis.

Very truly yours,

/s/

Susan Upton Douglass

Enclosure
SUD:ek

CORRESPONDENCE TO PETITIONER'S COUNSEL DATED OCTOBER 31, 1991 CONCERNING CESSATION OF USE OF THE VANESSA LABEL.

October 31, 1991

BY HAND

Dennis Grossman, Esq.
Grossman & King
475 Fifth Avenue, Suite 1800
New York, New York 10017

Re: Banff, Ltd. v. Colberts, Inc. and Tamara Imports, Inc., Civil Action No. 91-6585 (RLC)
(Our Ref: CBY USA TC-91/9038)

Dear Dennis:

I refer to the settlement proposal by my clients, embodied in my letter of October 30, 1991. I omitted to state one additional fact, which bears on your client's consideration of the settlement proposal: that as soon as the summons and complaint was received by my clients, they immediately took steps to cease all use of the VANESSA mark.

I now look forward to hearing from you with respect to the settlement proposal, namely, that my clients enter into a judgment on consent, namely, that my clients enter into a judgment on consent, without an admission of liability, in exchange for a release.

Very truly yours,
/s/
Susan Upton Douglass

Enclosure
SUD:ek

EXCERPT FROM DISTRICT COURT PROCEEDINGS

UNITED STATES DISTRICT COURT
Southern District of New York

BANFF, LTD.,

Plaintiff,

v.

COLBERTS, INC., and TAMARA IMPORTS, a division of COLBERTS, INC., and TAMARA IMPORTS, INC.,

Defendants.

---

91 Civ. 6585 (RLC)

July 10, 1992
10:12 am

Before:

Hon. Robert L. Carter,

* * *

THE COURT: The problem with this is that the only thing that -- you're wasting my time, aren't you -- the only thing you presented to me for the jury instructions are the issue of willful-

ness and the profit. There is nothing in your jury instructions -- and I gathered from that that the issue that you are now arguing is an issue which is for the court -- there is nothing in the jury instructions, which is one of the reasons that I missed the fact that this was a part of your case.

MR. GROSSMAN: I apologize for that your Honor.

If your Honor is suggesting your Honor will make a decision on the issue of unjust enrichment in the form of a bench trial, that's acceptable to the plaintiff, your Honor.

THE COURT: The point about it is all that is asked of the jury is the issue of willfulness and the profits, and with regard to that you haven't asked for anything else?

MR. GROSSMAN: In addition to that, I believe your Honor's rules state the requests to charge can be amended or supplemented at any time.

THE COURT: My rules don't state that, and in this kind of a case the jury is advisory for many of the things. Much of it is going to the court.

MR. GROSSMAN: Whether it is the jury or the judge who --

THE COURT: The point is that you're going to present all of your evidence to the jury. If you have a claim of unjust enrichment, and the issue in regard to that, they claim, I had assumed -- and I gather that assumption is at least correct -- that I will decide that.

I will also decide whether,, if you can prove it was willful in damages, as to whether or not you're going to get

anything above what the jury may decide. That's how the case goes.

MR. GROSSMAN: That is acceptable to the plaintiff.

THE COURT: All right. Okay.

(Jury present and duly sworn)

* * *

EXCERPT FROM DISTRICT COURT PROCEEDINGS

UNITED STATES DISTRICT COURT
Southern District of New York

BANFF, LTD.,

Plaintiff,

v.

COLBERTS, INC., and TAMARA IMPORTS, a division of COLBERTS, INC., and TAMARA IMPORTS, INC.,

Defendants.

---

91 Civ. 6585 (RLC)

July 10, 1992
10:12 am

Before:

Hon. Robert L. Carter,

* * *

THE COURT: Are you through?

MR. GROSSMAN: Yes.

THE COURT: As I understand the law of this circuit, the burden is on

the plaintiff to establish that on the issue of unjust enrichment, to establish that, the infringer was enriched by virtue of the profits made by the diversion of the defendants' goods, that they profited from the infringement.

There hasn't been any evidence on that at all. That is not an inference at all. There is no evidence of that anywhere.

We have ended that. I'll give you five minutes and then let's have this charging conference and we'll come back after that for closing arguments.

* * *

Supreme Court, U.S.
FILED
NOV 22 1993
OFFICE OF THE CLERK

(3)

No. 93-416

IN THE

Supreme Court of the United States

OCTOBER TERM, 1993

BANFF, LTD.,

Petitioner,

vs.

COLBERTS, INC., and TAMARA IMPORTS,
a division of COLBERTS, INC., and
TAMARA IMPORTS, INC.,

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

REPLY IN SUPPORT OF PETITION

DENNIS GROSSMAN
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New York, New York 10017
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GROSSMAN & KING
EILEEN KING
Of Counsel

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REPLY IN SUPPORT OF PETITION FOR CERTIORARI

Petitioner Banff, Ltd. hereby submits its reply in support of its petition for certiorari.[1]

1. Respondents ignore the Second Circuit's express holding that Lanham Act § 35 overruled *Mishawaka* — a departure from every other Circuit on point

Respondents ignore the Second Circuit's express holding that Congress overruled *Mishawaka* (cert.opp. at 13). Yet that is exactly what the Second Circuit held: that "*Mishawaka* is inconsistent with § 35 of the Lanham Act [and] is no longer good law." 996 F.2d at 35n.1 (A.1 at 5n.1). The Second Circuit could not have been clearer in its express holding that Congress, through Lanham Act § 35, had overruled *Mishawaka* ("*Mishawaka* . . . is no longer good law"; *id.*).

Nor is respondents' purported explanation any more valid. Respondents seek to explain the Second Circuit's holding as one involving a mere failure to meet a burden of proof. Respondents argue: "The Court of Appeals simply held that petitioner did not meet its burden of proof. . . ." (cert.opp. at 13). But this reasoning is circular. Petitioner "did not meet its burden of proof" (cert.opp. at 13) *because* the Second Circuit imposed the burden on the wrong party. The issue of who bears the burden of proof *is the issue here*. It cannot be trivialized as a mere failure to "meet [a] burden of proof".

Respondents cannot reasonably oppose certiorari on the purported ground that this case "merely" involves an unmet burden, when the proper allocation of that burden (i.e., which party has it) is precisely the legal issue presented for review.

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[1] In an attempt to garner judicial sympathy, respondents assert that they are a "family-run" business (cert.opp. at 4). But respondents do not disclose, although they admitted at trial, they are a huge $35-million/year enterprise (trial transcript at 4). The infringement-profits at issue here are $137,189 (A.20–21).

That allocation was made against the guilty infringer by this Court in *Mishawaka* and by every Circuit to apply *Mishawaka*, except the Second Circuit in the case below (*see* list of Circuits in cert.pet. at 13–14).[2]

2. Respondents do not dispute the list of cases showing the Second Circuit's departure from every other Circuit to address *Mishawaka*

The petition includes a list of cases showing the Second Circuit's disagreement with *every other Circuit* on point: that *every other Circuit* to address the issue continues to follow *Mishawaka* after enactment of the Lanham Act (list in cert.pet. at 13–14). Only the Second Circuit rejects it ("*Mishawaka* . . . is no longer good law"; 996 F.2d at 35n.1; A.1 at 5n.1).

Respondents never responded to, nor disputed, this list of cases showing the Second Circuit's express departure from *every* other Circuit on point.

3. Respondents do not dispute that the Second Circuit confused 2 different burdens of proof under the Lanham Trademark Act

The petition for certiorari describes the Second Circuit's confusion of 2 different burdens of proof under the Lanham Act (cert.pet. at 10–12). Respondents do not dispute that the Second Circuit in fact confused them.

This Court in *Mishawaka*, and Congress in Lanham Act § 35, addressed 2 *different* burdens of proof: *Mishawaka* addressed the burden of proving the *cause* of an infringer's

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[2]Respondents also resort to semantics. Respondents take issue with petitioner's use of the word "overrule", and argue that Congress cannot "overrule" a Supreme Court decision (cert.opp. at 13n.6). Respondents argue that Congress merely passes legislation which may countermand Supreme Court decisions. *Id.* This is semantic quibbling, designed to distract attention from the critical issue of whether *Mishawaka* is inconsistent with Lanham Act § 35.

profits; whereas, Lanham Act § 35 addresses the burden of proving the *amount* of such profits. The Second Circuit confused the 2 burdens (cause vs. amount) and, from its confusion, held (improperly) that Lanham Act § 35 had overruled *Mishawaka*. 996 F.2d at 35n.1; A.1 at 5n.1 ("*Mishawaka* is inconsistent with § 35 of the Lanham Act [and] is no longer good law").

Petitioner addressed in detail the Second Circuit's confusion of the 2 burdens of proof (cert.pet. at 10–12). Respondents fail to respond on this critical issue, and do not dispute that the Second Circuit in fact confused these 2 different burdens of proof.

4. Most Circuits reject respondents' interpretation of this Court's decision in *Champion Spark Plug*

Most Circuits reject respondents' intepretation of *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125 (1947). Respondents assert that *Champion Spark Plug* requires fraud/willfulness to recover infringement-profits (cert.opp. at 17–18). This is not so. Most Circuits, after *Champion Spark Plug*, do *not* require proof of fraud or willfulness for such a recovery (list of Circuits in cert.pet. at 14–16).

Champion Spark Plug used the special fact situation before it—reconditioned goods sold under an original mark—to dispel the notion that an accounting was automatic. This is consistent with *Mishawaka*, which allows an infringer to prove the absence of profits-causation. *Champion Spark Plug* never required, and most Circuits do not require, proof of fraud or willfulness to recover infringement-profits (list of Circuits in cert.pet. at 14–16).

5. Circuit-by-Circuit refutation of respondents' alleged uniformity on the willfulness issue

Respondents misquote or mis-describe the no-willfulness cases in petitioner's list of Circuits (cert.pet. at 14–15). Respondents, although acknowledging the "willfulness" cases in the 2d, 6th, and D.C. Circuits (*id.*, at 15), dispute the "no-willfulness" cases in the 3d, 7th, 9th, 10th, and 11th Circuits (*id.*, at 14–15). Respondents err. The latter Circuits expressly reject a fraud or willfulness requirement.

Respondents' errors on the no-willfulness cases are:

Draft-Restatement: Respondents cite the draft-restatement for an alleged indication of uniformity (cert.opp. at 24–25, 32). But the draft-restatement recites the opposite: that there is wide disagreement among the Circuits, and cites no-willfulness cases which allow recovery for "good faith use of another's mark".[3]

Third Circuit: *Williamson-Dickie Co. v. Davis Mfg. Co.*, 251 F.2d 924 (3d Cir. 1958). The Third Circuit affirmed an award of infringement-profits "[i]n the absence of fraud on the part of defendants". *Id.*, at 927. Respondents ignore the quoted no-fraud language and, instead, quote language that an accounting is not automatic (cert.opp. at 28). This response is inapposite. The "not-automatic" language does not require fraud/willfulness but results from this Court's decision in *Mishawaka* (which respondents reject), allowing infringers to disprove profits-causation. The Third Circuit expressly affirmed the award "[i]n the absence of fraud". *Id.*, at 927.

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[3]*Tentative Draft No. 3, Restat. of Law of Unfair Comp.*, § 37, *comment e* (recognizing that *Wolfe* [9th Cir.] and *Burger King* [11th Cir.] allow accountings for "good faith use of another's mark", i.e., no-willfulness).

Also, the tentative-draft restatement did not mention 2 further Circuit cases which expressly reject a "fraud" or "willfulness" requirement. *See Williamson-Dickie* (3d Cir.) (expressly rejecting a fraud requirement), *and Roulo* (7th Cir.) (expressly rejecting a willfulness requirement), both quoted in list of Circuits (cert.pet. at 14), and in this reply at pp. 4–5.

Seventh Circuit: *Roulo v. Russ Berrie & Co.*, 886 F.2d 931 (7th Cir. 1989), *cert. denied*, 493 U.S. 1075 (1990). The Seventh Circuit affirmed an award of infringement-profits where "the infringement was not willful". *Id.*, at 943. The Seventh Circuit also held: "[T]here is no express requirement that . . . the infringer willfully infringe the trade dress to justify an award of profits". *Id.*, at 941.

Respondents ignore the quoted no-willfulness language and, instead, assert requirements of "intentional imitation" and damages (cert.opp. at 27). However, the asserted damage requirement addressed a *separate* remedy: recovery of plaintiff's damages, not defendant's profits. 886 F.2d at 941 ("plaintiff's actual losses rather than . . . defendant's profits"). Nor does "intentional imitation" connote willfulness. The Seventh Circuit made express holdings of no-willfulness in affirming the award. *Id.*, at 941, 943 ("the infringement was not willful").

Ninth Circuit: *Wolfe v. National Lead Co.*, 272 F.2d 867 (9th Cir. 1959). The Ninth Circuit affirmed an award of infringement-profits "whether [the infringer] believed himself to be within the law or not". *Id.*, at 871. Respondents ignore this quote and, instead, quote other language of the infringer's intent during a *different* period of time (cert.opp. at 29). The draft-restatement recognizes that *Wolfe* allows recovery of infringement-profits, without willfulness, for "good faith use of another's mark" (n.3, *supra*).

Tenth Circuit: *Blue Bell Co. v. Frontier Refining Co.*, 213 F.2d 354 (10th Cir. 1954). The Tenth Circuit affirmed a recovery of infringement-profits "upon the equitable principle of unjust enrichment" without willfulness. *Id.*, at 363. Respondents fail to address this quote and, instead, assert that *Blue Bell* allegedly "was based on proof of actual damage" (cert.opp. at 30). But *Blue Bell* held the opposite: that its award of infringement-profits "is predicated upon the equitable principle of unjust enrichment, *not the legal theory of provable damages*". *Blue Bell, supra*, 213 F.2d at 363 (emp. added).

Eleventh Circuit: *Burger King Corp. v. Mason*, 855 F.2d 779 (11th Cir. 1988). The Eleventh Circuit expressly rejected a willfulness requirement, "reject[ing] good faith as a defense to an accounting of profits". *Id.*, at 781. The draft-restatement also recognizes that *Burger King* allows recovery for "good faith use of another's mark" (n.3, *supra*). Respondents fail to mention this and, instead, assert that *Burger King* allegedly was based on "intentional infringement" by a former franchisee (cert.opp. at 30). But the franchisee had a good-faith belief in its entitlement to use the mark (non-willful), and the Eleventh Circuit expressly held that willfulness was not essential to a profits recovery. *Id.*, at 781 ("reject[ing] good faith as a defense to an accounting of profits").

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Respondents have misquoted, or non-quoted, the no-willfulness cases listed in the petition (cert.pet. at 14–15). Respondents' assertions of uniformity do not stand under examination of the listed Circuit-cases. The draft-restatement also recognizes that the Circuits are split on the issue.

This Court should grant certiorari, to resolve the split in the Circuits over whether willfulness always is required to recover infringement-profits under the Lanham Trademark Act.[4]

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[4]Respondents admit that the law-review articles also are divided over whether fraud or willfulness is required (cert.opp. at 19n.8).

CONCLUSION

This Court should grant certiorari to review (1) the Second Circuit's express and unsupported rejection of this Court's decision in *Mishawaka* which this Court designed to protect federally-registered trademarks, (2) the Second Circuit's divergence from every other Circuit on point in its express rejection of *Mishawaka*, and (3) the Second Circuit's divergence from most other Circuits in holding that willfulness *always* is required for an award of infringement-profits under the Lanham Trademark Act.

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